

HART COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2005

HART COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hart County School District
Munfordville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hart County School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 29, 2005, on our consideration of Hart County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 9, and the Budgetary Comparison Information on pages 36 through 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hart County School District's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 42 through 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
September 29, 2005

REQUIRED SUPPLEMENTARY INFORMATION

**HART COUNTY SCHOOL DISTRICT – MUNFORDVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Hart County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to review the School District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- Planning began on the construction of a new Munfordville Elementary School. The school is expected to begin construction in December 2005 or January 2006 and is scheduled to open in the fall of 2007.
- The beginning cash balance for the District was \$3.4 million. Ending cash was \$3.1 million. The primary reason for the decrease was the use of construction cash in the Memorial Elementary School renovation. Of the ending cash, approximately \$740 thousand will be used in the construction of a new Munfordville Elementary School.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- The District completed the renovation of Memorial Elementary School.
- During fiscal 2005, the District improved its financial position. Net assets increased by \$795 thousand.
- The General Fund had \$14.7 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$14.1 million in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$500 thousand during the current fiscal year.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform accounting system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds include the food service operation. The only fiduciary funds are agency funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12.7 million as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the periods ending June 30, 2005 and 2004
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 3,149,444	\$ 3,536,702	\$ 242,654	\$ 242,654	\$ 3,392,098	\$ 3,779,356
Capital Assets	<u>20,962,928</u>	<u>20,691,035</u>	<u>880,002</u>	<u>880,002</u>	<u>21,842,930</u>	<u>21,571,037</u>
Total Assets	<u>24,112,372</u>	<u>24,227,737</u>	<u>1,122,656</u>	<u>1,122,656</u>	<u>25,235,028</u>	<u>25,350,393</u>
Long-term Debt	11,248,164	11,866,868	-	-	11,248,164	11,866,868
Other Liabilities	<u>1,262,171</u>	<u>1,525,738</u>	<u>3,265</u>	<u>3,265</u>	<u>1,265,436</u>	<u>1,529,003</u>
Total Liabilities	<u>12,510,335</u>	<u>13,392,606</u>	<u>3,265</u>	<u>3,265</u>	<u>12,513,600</u>	<u>13,395,871</u>
Net Assets						
Investment in capital assets (net of debt)	9,469,705	8,684,113	880,002	880,002	10,349,707	9,564,115
Restricted	471,871	649,329	-	-	471,871	649,329
Unrestricted	<u>1,660,461</u>	<u>1,501,689</u>	<u>239,389</u>	<u>239,389</u>	<u>1,899,850</u>	<u>1,741,078</u>
Total Net Assets	<u>\$ 11,602,037</u>	<u>\$ 10,835,131</u>	<u>\$ 1,119,391</u>	<u>\$ 1,119,391</u>	<u>\$ 12,721,428</u>	<u>\$ 11,954,522</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District completed and put in service the Memorial Elementary School renovation project. The District paid \$500 thousand in long-term debt.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2005, net of Interfund transfers, were \$20.3 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$2.8 million more than budget or approximately 24%. Of this variance, \$2.3 million was related to on-behalf payments that were not budgeted in accordance with Kentucky Department of Education regulations.
- The total cost of all programs and services was \$19.9 million including debt service.
- General fund budget expenditures to actual varied significantly in Instruction and Other Expenses. This resulted from the District not budgeting on-behalf payments made by the State of Kentucky as instructed by the Department of Education and not having to spend budgeted contingency funds.

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
REVENUES:						
Program revenues:						
Charges for services	\$ 524	\$ 360	\$ 376,107	\$ 362,757	\$ 376,631	\$ 363,117
Operating grants and contributions	3,814,374	3,649,986	829,651	792,287	4,644,025	4,442,273
Capital grants	298,213	298,548	-	-	298,213	298,548
General revenues:						
Property taxes	1,974,369	1,762,215	-	-	1,974,369	1,762,215
Motor vehicle taxes	321,730	345,836	-	-	321,730	345,836
Utility taxes	592,974	533,028	-	-	592,974	533,028
Revenue in lieu of taxes	58,549	57,154	-	-	58,549	57,154
Other taxes	1,771	1,645	-	-	1,771	1,645
Investment earnings	78,523	34,233	3,854	802	82,377	35,035
State and formula grants	11,867,006	11,228,969	-	-	11,867,006	11,228,969
Gain (loss) on asset disposal	1,628	(843)	-	-	1,628	(843)
Miscellaneous	42,023	32,377	-	-	42,023	32,377
Total revenues	<u>19,051,684</u>	<u>17,943,508</u>	<u>1,209,612</u>	<u>1,155,846</u>	<u>20,261,296</u>	<u>19,099,354</u>
EXPENSES						
Program Activities						
Instruction	10,463,232	9,745,438	-	-	10,463,232	9,745,438
Student support	905,104	910,427	-	-	905,104	910,427
Instructional staff support	1,048,413	878,650	-	-	1,048,413	878,650
District administrative support	758,047	879,805	-	-	758,047	879,805
School administrative support	1,091,232	968,240	-	-	1,091,232	968,240
Business support	379,699	125,423	-	-	379,699	125,423
Plant operation and maintenance	1,449,070	1,387,677	-	-	1,449,070	1,387,677
Student transportation	1,345,442	1,221,739	-	-	1,345,442	1,221,739
Community service activities	274,512	284,055	-	-	274,512	284,055
Facilities acquisition	8,096	2,646	-	-	8,096	2,646
Other	7,958	7,688	-	-	7,958	7,688
Interest costs	553,973	575,229	-	-	553,973	575,229
Business-type Activities:						
Food service	-	-	1,181,933	1,113,334	1,181,933	1,113,334
Total expenses	<u>18,284,778</u>	<u>16,987,017</u>	<u>1,181,933</u>	<u>1,113,334</u>	<u>19,466,711</u>	<u>18,100,351</u>
Increase in net assets	<u>\$ 766,906</u>	<u>\$ 956,491</u>	<u>\$ 27,679</u>	<u>\$ 42,512</u>	<u>\$ 794,585</u>	<u>\$ 999,003</u>

Governmental Activities

Instruction comprises 57% of governmental program expenses. Support services expenses make up 38% of government expenses. The remaining expense for community services, interest, other expense and facility acquisition accounts for the remaining 5% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities
Total Cost of Services Net Cost of Services

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction	\$ 10,463,232	\$ 9,745,438	\$ 7,580,894	\$ 6,607,142
Support Services	5,763,738	6,371,961	6,312,080	6,141,373
Community services	274,512	284,055	6,879	2,393
Other	7,958	7,688	7,958	7,688
Facility acquisition	8,096	2,646	8,096	2,646
Interest costs	<u>553,973</u>	<u>575,229</u>	<u>255,760</u>	<u>276,681</u>
Total Expenses	<u><u>\$ 17,071,509</u></u>	<u><u>\$ 16,987,017</u></u>	<u><u>\$ 14,171,667</u></u>	<u><u>\$ 13,037,923</u></u>

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of \$1,209,612 and expenses of \$1,181,933 for fiscal year 2005. Of the revenues, \$376,107 was charges for services, \$829,651 was from State and Federal grants and \$3,854 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$19,840,747 and expenditures and other financing uses of \$19,861,721. Net changes in fund balances for the year were most significant in General Fund which increased by \$519,620, and Construction Fund which decreased by \$561,361.

The increase in General Fund was due to cost cutting measures to reduce overall expenditures, employee retirements and some instructional supplies being purchased through School Activity Funds. The decrease in Construction Fund was due to the use of bond funds in the Memorial Elementary School renovation.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$11,916,947 with actual amounts of \$14,688,461. Budgeted expenditures of \$13,464,424 compare with actual expenditures of \$14,140,687. The most significant fluctuation is for unbudgeted on-behalf payments of \$ 2,289,274. If on-behalf payments were not included in revenues, revenues would be \$12,399,187, which is \$ 482,240 over budget. If on-behalf payments were not included in expenditures, expenditures would be \$11,851,413, which is \$1,613,011 under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005 the School District had \$21.5 million invested in land, buildings and equipment and \$21 million in governmental activities. Table 4 shows fiscal year 2005 and 2004 balances.

(Table 4)
Capital Assets at June 30, 2005 and 2004
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 648,795	\$ 648,795	\$ -	\$ -	\$ 648,795	\$ 648,795
Buildings and improvements	18,563,762	14,876,482	783,952	806,162	19,347,714	15,682,644
Technology	440,947	403,048	1,601	1,290	442,548	404,338
Vehicles	959,713	772,645	-	-	959,713	772,645
General equipment	349,711	390,471	61,829	72,550	411,540	463,021
Total	<u>20,962,928</u>	<u>17,091,441</u>	<u>847,382</u>	<u>880,002</u>	<u>21,810,310</u>	<u>17,971,443</u>
Construction in progress	<u>-</u>	<u>3,599,594</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,599,594</u>
Total	<u><u>\$ 20,962,928</u></u>	<u><u>\$ 20,691,035</u></u>	<u><u>\$ 847,382</u></u>	<u><u>\$ 880,002</u></u>	<u><u>\$ 21,810,310</u></u>	<u><u>\$ 21,571,037</u></u>

Table 5 shows changes in capital assets for the years ended June 30, 2005 and 2004.

(Table 5)
Change in Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 20,691,035	\$ 17,841,473	\$ 880,002	\$ 905,040	\$ 21,571,037	\$ 18,746,513
Additions	5,384,022	3,912,631	730	8,507	5,384,752	3,921,138
Retirements	(4,165,630)	(106,013)	-	-	(4,165,630)	(106,013)
Depreciation	<u>(946,499)</u>	<u>(957,056)</u>	<u>(33,350)</u>	<u>(33,545)</u>	<u>(979,849)</u>	<u>(990,601)</u>
Ending balance	<u><u>\$ 20,962,928</u></u>	<u><u>\$ 20,691,035</u></u>	<u><u>\$ 847,382</u></u>	<u><u>\$ 880,002</u></u>	<u><u>\$ 21,810,310</u></u>	<u><u>\$ 21,571,037</u></u>

Construction was completed on the renovation of Memorial Elementary School.

Debt

At June 30, 2005, the School District had \$11,460,000 in bonds outstanding, of this amount \$2,398,078 is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$525,000 is due within one year.

District Challenges for the Future

Hart County School District's financial status has improved in the last fiscal year. This improvement was the result of two major factors, student growth and an increase in SEEK funding. However, as we look forward, we expect unfunded mandates to have an impact on our District.

The School District has experienced an annual growth in student enrollment of 30-34 students per year, for the last 2 years. The School District has prepared for an increase in enrollment by renovating and adding to existing schools. The District is also in the planning phase for construction of a new Munfordville Elementary School. These new and improved facilities come with increased utility costs and additional personnel cost (both administrative and support staffs). These renovated facilities also have a cost for computers, library books, instructional materials, and other items that are primarily paid from the General Fund. These costs along with the need to maintain, renovate and/or build facilities in the next few years will create more challenges for the School District.

The District is experiencing increased fuel costs which have risen between 150% and 175%. Also, there have been increased personnel costs associated with preschool programs that have not been funded through state or federal programs.

Most costs associated with growth have, in the past, been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Additional factors concerning our School District's financial status include the implementation of various unfunded mandates. Examples include the Flex Fund accounts (Professional Development, Safe Schools, Preschool, Textbooks and Extended School Services). State funding for these programs does not meet our needs as a District. Therefore, local generated funds will have to address these areas. Also, the uncertainty of state budgeted revenue projections may impact our funding as well as future mandated salary increases for all certified personnel. In addition, the full effect of No Child Left Behind (NCLB) has yet to be determined. Funding for this program is not equal to the mandates required by the Federal Government.

With careful planning and monitoring of our finances, Hart County Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Judy Lawler, Assistant Superintendent, 511 West Union Street, Munfordville, Kentucky, 42765, (270) 524-2631.

BASIC FINANCIAL STATEMENTS

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 2,837,925	\$ 259,356	\$ 3,097,281
Inventory		42,526	42,526
Accounts receivable:			
Taxes-current	99,208		99,208
Taxes-delinquent	3,740		3,740
Accounts receivable	12,062	346	12,408
Intergovernmental-State	94,453		94,453
Intergovernmental-Indirect Federal	59,050		59,050
Prepaid expenses	43,006		43,006
Total Current Assets	3,149,444	302,228	3,451,672
<u>Noncurrent Assets</u>			
Capital assets	31,168,924	1,392,336	32,561,260
Less: accumulated depreciation	(10,205,996)	(544,954)	(10,750,950)
Total Noncurrent Assets	20,962,928	847,382	21,810,310
Total Assets	24,112,372	1,149,610	25,261,982
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	117,734	2,540	120,274
Accrued payroll and related expenses	257,995		257,995
Deferred revenue	136,771		136,771
Current portion of bond obligations	525,000		525,000
Current portion of capital lease obligations	16,555		16,555
Current portion of accrued sick leave	144,521		144,521
Interest payable	63,595		63,595
Total Current Liabilities	1,262,171	2,540	1,264,711
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	10,935,000		10,935,000
Less: Unamortized discount and expense	(64,421)		(64,421)
Noncurrent portion of capital lease obligations	81,089		81,089
Noncurrent portion of accrued sick leave	296,496		296,496
Total Noncurrent Liabilities	11,248,164	-	11,248,164
Total Liabilities	12,510,335	2,540	12,512,875
<u>Net Assets</u>			
Invested in capital assets, net of related debt	9,469,705	847,382	10,317,087
Restricted for:			
Capital projects	471,871		471,871
Unrestricted	1,660,461	299,688	1,960,149
Total Net Assets	\$ 11,602,037	\$ 1,147,070	\$ 12,749,107

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

FUNCTIONS/PROGRAMS

Governmental Activities:

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Instruction	\$ 10,463,232	\$ 524	\$ -	\$ (7,580,894)	\$ -	\$ (7,580,894)
Support services:						
Student	905,104	79,995		(825,109)		(825,109)
Instruction staff	1,048,413	545,080		(503,333)		(503,333)
District administrative	758,047			(758,047)		(758,047)
School administrative	1,091,232	13,341		(1,077,891)		(1,077,891)
Business	379,699			(379,699)		(379,699)
Plant operation and maintenance	1,449,070	5,765		(1,443,305)		(1,443,305)
Student transportation	1,345,442	20,746		(1,324,696)		(1,324,696)
Facilities acquisition and construction	8,096			(8,096)		(8,096)
Community service activities	274,512	267,633		(6,879)		(6,879)
Other	7,958			(7,958)		(7,958)
Interest on long-term debt	553,973		298,213	(255,760)		(255,760)
Total Governmental Activities	18,284,778	3,814,374	298,213	(14,171,667)	-	(14,171,667)

Business-Type Activities:

Food service	376,107	829,651			23,825	23,825
Total Business-Type Activities	376,107	829,651	298,213	-	23,825	23,825
Total Primary Government	<u>\$ 19,466,711</u>	<u>\$ 4,644,025</u>	<u>\$ 298,213</u>	<u>(14,171,667)</u>	<u>23,825</u>	<u>(14,147,842)</u>

General Revenues:

Taxes:						
Property taxes				1,974,369		1,974,369
Motor vehicle taxes				321,730		321,730
Utility taxes				592,974		592,974
Revenue in lieu of taxes				58,549		58,549
Other				1,771		1,771
Investment earnings				78,523	3,854	82,377
State and formula grants				11,867,006		11,867,006
Gain on asset disposal				1,628		1,628
Miscellaneous				42,023		42,023
Total general revenues				14,938,573	3,854	14,942,427
Change in net assets				766,906	27,679	794,585
Net assets - beginning				10,835,131	1,119,391	11,954,522
Net assets - ending				<u>\$ 11,602,037</u>	<u>\$ 1,147,070</u>	<u>\$ 12,749,107</u>

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

HART COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Special Revenue Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 2,297,935	\$ 68,119	\$ 339,002	\$ 132,867	\$ 2,837,923
Accounts receivable:					
Taxes - current	99,208				99,208
Taxes - delinquent	3,740				3,740
Accounts receivable	12,062				12,062
Intergovernmental - State		94,453			94,453
Intergovernmental - Indirect Federal	3,883	55,167			59,050
Prepaid expenses	27,708				27,708
Total Assets and Resources	<u>\$ 2,444,536</u>	<u>\$ 217,739</u>	<u>\$ 339,002</u>	<u>\$ 132,867</u>	<u>\$ 3,134,144</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 86,305	\$ 31,429	\$ -	\$ -	\$ 117,734
Accrued payroll and related expenses	257,995				257,995
Deferred revenue		136,771			136,771
Sick leave	3,357				3,357
Total Liabilities	347,657	168,200	-	-	515,857
Fund Balances					
Reserved for:					
Encumbrances	97,284	49,539			146,823
SFCC escrow			339,002		339,002
Construction				132,867	132,867
Unreserved:					
Undesignated, reported in:					
General fund	1,999,595				1,999,595
Total Fund Balances	<u>2,096,879</u>	<u>49,539</u>	<u>339,002</u>	<u>132,867</u>	<u>2,618,287</u>
Total Liabilities and Fund Balances	<u>\$ 2,444,536</u>	<u>\$ 217,739</u>	<u>\$ 339,002</u>	<u>\$ 132,867</u>	<u>\$ 3,134,144</u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statements	\$ 2,618,287
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	20,962,928
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets	15,300
Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(11,994,478)</u>
Net assets for governmental activities	<u>\$ 11,602,037</u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	General Fund	Special Revenue Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 1,730,536	\$ -	\$ 243,833	\$ -	\$ 1,974,369
Motor vehicle	321,730				321,730
Utilities	592,974				592,974
Revenue in lieu of taxes	58,549				58,549
Other taxes	1,771				1,771
Earnings on investments	73,348	500		4,675	78,523
Other local revenues	4,204	26,232			30,436
Intergovernmental - State	11,867,006	1,062,885	412,609	521,874	13,864,374
Intergovernmental - Indirect Federal	38,343	2,088,988			2,127,331
Total Revenues	14,688,461	3,178,605	656,442	526,549	19,050,057
Expenditures:					
Instruction	7,576,476	2,376,242			9,952,718
Support services:					
Student	827,770	79,995			907,765
Instruction staff	532,997	545,080			1,078,077
District administrative	767,331				767,331
School administrative	1,077,888	13,341			1,091,229
Business	386,943				386,943
Plant operation and maintenance	1,419,936	5,765			1,425,701
Student transportation	1,524,564	20,746			1,545,310
Facilities acquisition and construction	8,096			566,036	574,132
Community service activities	3,136	267,633			270,769
Other non-instruction	15,550				15,550
Debt service:					
Principal				500,000	500,000
Interest				557,134	557,134
Total Expenditures	14,140,687	3,308,802	-	1,623,170	19,072,659
Excess (Deficit) of Revenues over Expenditures	547,774	(130,197)	656,442	(1,096,621)	(22,602)
Other Financing Sources (Uses):					
Proceeds from sale of fixed assets	1,628				1,628
Operating transfers in		30,142		758,920	789,062
Operating transfers out	(30,142)		(535,260)	(223,660)	(789,062)
Total Other Financing Sources (Uses)	(28,514)	30,142	(535,260)	535,260	1,628
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	519,260	(100,055)	121,182	(561,361)	(20,974)
Fund Balance, July 1, 2004	1,577,619	149,594	217,820	694,228	2,639,261
Fund Balance, June 30, 2005	\$ 2,096,879	\$ 49,539	\$ 339,002	\$ 132,867	\$ 2,618,287

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in total fund balances per fund financial statements	\$ (20,974)
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays expense exceeds depreciation expense for the year.	271,891
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	518,443
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(2,454)</u>
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Change in net assets of governmental activities	<u><u>\$ 766,906</u></u>
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See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2005

	Food Service Fund
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 259,356
Inventory	42,526
Accounts receivable	346
	<hr/>
Total Current Assets	302,228
<u>Noncurrent Assets</u>	
Capital assets	1,392,336
Less: accumulated depreciation	(544,954)
	<hr/>
Total Noncurrent Assets	847,382
	<hr/>
Total Assets	1,149,610
	<hr/>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	2,540
	<hr/>
Total Current Liabilities	2,540
	<hr/>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	847,382
Unrestricted	299,688
	<hr/>
Total Net Assets	\$ 1,147,070
	<hr/>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 358,952
Other operating revenues	17,155
Total Operating Revenues	<u>376,107</u>
Operating Expenses:	
Salaries and wages	563,349
Materials and supplies	541,670
Depreciation	33,350
Other operating expenses	43,564
Total Operating Expenses	<u>1,181,933</u>
Operating loss	(805,826)
Non-Operating Revenues (Expenses):	
Federal grants	757,895
Donated commodities	55,724
State grants	16,032
Interest income	3,854
Total Non-Operating Revenues (Expenses)	<u>833,505</u>
Changes in net assets	27,679
Net Assets, July 1, 2004	<u>1,119,391</u>
Net Assets, June 30, 2005	<u><u>\$ 1,147,070</u></u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 358,606
Other activities	17,155
Cash paid to/for:	
Employees	563,349
Supplies	499,649
Other activities	43,564
Net Cash Used by Operating Activities	(730,801)
Cash flows from Non-Capital and Related Financing Activities	
Federal grants	757,895
State grants	16,032
Net Cash Provided by Non-Capital and Related Financing Activities	773,927
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(730)
Cash Flows from Investing Activities	
Receipt of interest income	3,854
Net increase in cash and cash equivalents	46,250
Balances, beginning of year	213,106
Balances, end of year	\$ 259,356
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (805,826)
Adjustments to reconcile operating loss to net cash (used) by operating activities:	
Depreciation	33,350
Donated commodities	55,724
Change in assets and liabilities:	
Interest receivable	9
Inventory	(12,987)
Accounts receivable	(346)
Accounts payable	(725)
Net cash used by operating activities	\$ (730,801)
Schedule of non-cash transactions:	
Donated commodities received from federal government	\$ 55,724

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 22,471	\$ 142,318
Accounts receivable		1,597
Total Assets	<u>22,471</u>	<u>143,915</u>
Liabilities		
Accounts payable		2,768
Due to student groups		141,147
Total Liabilities	<u>-</u>	<u>143,915</u>
Net Assets Held in Trust	<u>\$ 22,471</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended June 30, 2005

	Private Purpose Trust Funds
Additions	
Net interest and investment gains (losses)	\$ 471
Contributions	<u>22,500</u>
	22,971
Deductions	
Scholarships paid	<u>(500)</u>
Change in net assets	45,442
Net Assets, July 1, 2004	<u>-</u>
Net Assets, June 30, 2005	<u><u>\$ 45,442</u></u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hart County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Hart County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Hart County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Hart County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Hart County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 42 through 43. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. is a major fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

III. Fiduciary Fund Type (Agency Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - continued

tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2005, to finance operations were \$.445 per \$100 valuation for real property, \$.445 per \$100 valuation for business personal property and \$.551 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for construction funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2005, none of the District's bank balance of \$4,175,343 was exposed to custodial credit risk.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Governmental Activities	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Non-Depreciable Assets:				
Land	\$ 648,795	\$ -	\$ -	\$ 648,795
Construction in progress	3,599,594	566,036	(4,165,630)	-
Depreciable Assets:				
Land improvements				
Buildings and improvements	20,403,578	4,165,630		24,569,208
Technology equipment	1,786,101	253,262	(2,049)	2,037,314
Vehicles	2,488,022	358,462	(94,797)	2,751,687
General equipment	1,121,288	40,632		1,161,920
Totals at historical cost	30,047,378	5,384,022	(4,262,476)	31,168,924
Accumulated depreciation:				
Land improvements				
Buildings and improvements	5,527,096	478,350		6,005,446
Technology equipment	1,383,053	215,363	(2,049)	1,596,367
Vehicles	1,715,377	171,394	(94,797)	1,791,974
General equipment	730,817	81,392		812,209
Total accumulated depreciation	9,356,343	946,499	(96,846)	10,205,996
Government Activities Capital Assets - Net	<u>\$ 20,691,035</u>	<u>\$ 4,437,523</u>	<u>\$ (4,165,630)</u>	<u>\$ 20,962,928</u>
Business-Type Activities				
Buildings and improvements	1,110,500			1,110,500
Technology equipment	1,548	730		2,278
Food service equipment	279,558			279,558
Totals at historical cost	1,391,606	730	-	1,392,336
Accumulated depreciation:				
Buildings and improvements	304,338	22,210		326,548
Technology equipment	258	419		677
Food service equipment	207,008	10,721		217,729
Total accumulated depreciation	511,604	33,350	-	544,954
Government Activities Capital Assets - Net	<u>\$ 880,002</u>	<u>\$ (32,620)</u>	<u>\$ -</u>	<u>\$ 847,382</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 699,837			
Student support	1,534			
Instructional staff	10,078			
District administration	12,185			
School administration	12,668			
Business support	9,779			
Plant	23,352			
Transportation	173,323			
Community services	3,743			
	<u>\$ 946,499</u>			

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE E – LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1997	\$ 2,640,000	3.75% - 4.90%
1998	945,000	3.85% - 4.20%
1999	4,190,000	4.82%
2000	3,355,000	5.00% - 5.875%
2004	3,200,000	2.00% - 4.125%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hart County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2005-06	\$ 525,000	\$ 535,021	\$ 298,279	\$ 761,742
2006-07	545,000	511,529	298,397	758,132
2007-08	550,000	487,314	278,696	758,618
2008-09	575,000	462,048	278,895	758,153
2009-10	595,000	441,804	278,685	758,119
2011-15	2,955,000	1,793,421	949,415	3,799,006
2016-20	3,525,000	1,002,301	726,933	3,800,368
2021-23	<u>2,190,000</u>	<u>183,150</u>	<u>89,876</u>	<u>2,283,274</u>
	<u>\$ 11,460,000</u>	<u>\$ 5,416,588</u>	<u>\$ 3,199,176</u>	<u>\$ 13,677,412</u>

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liabilities for the year ended June 30, 2005, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$ 11,960,000	\$ -	\$500,000	\$11,460,000	\$525,000
Accrued sick leave	<u>441,887</u>	<u>60,196</u>	<u>61,066</u>	<u>441,017</u>	<u>144,521</u>
Governmental Activities:					
Long-term liabilities	<u>\$12,401,887</u>	<u>\$ 60,196</u>	<u>\$561,066</u>	<u>\$11,901,017</u>	<u>\$669,521</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

NOTE F – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2005</u>
Buses	\$ 70,738
Copier	10,181

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005:

2006	\$ 19,965
2007	17,682
2008	13,223
2009	13,223
2010	13,168
2011-2013	<u>34,235</u>
Total minimum lease payments	111,496
Less: Amount representing interest	<u>(13,852)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 97,644</u>

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office space provide the minimum future rental payments as of June 30, 2005 as follows:

Year ending June 30, 2006	\$ 19,500
Year ending June 30, 2007	7,200
Year ending June 30, 2008	<u>1,200</u>
	<u>\$ 27,900</u>

Rent expense for the year ended June 30, 2005 was \$23,100.

NOTE H – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$1,046,675 were made by the State of Kentucky and \$119,844 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$877,226 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$11,661,338, and \$8,901,325 of such amount related to employees covered by the retirement plan.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE H – RETIREMENT PLANS – CONTINUED

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 8.48% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2005 was \$366,567, which consisted of \$229,623 from the District and \$136,744 from the employees. The total covered payroll for CERS during the year was \$2,707,814. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Board therefore does not show these assets and liabilities on this financial statement.

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J- LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Special Revenue Fund	\$ 100,055
Construction Fund	561,361

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Technology Match	\$ 30,142
Operating	SEEK Capital Outlay	Debt Service	Debt Service	223,660
Operating	FSPK Fund	Debt Service	Debt Service	535,260

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2005.

NOTE Q – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for insurance, retirement and other items. Total on-behalf payments for the year ended June 30, 2005, were \$2,289,724.

NOTE R – PRIOR PERIOD ADJUSTMENT

During the year, the District made a prior period adjustment to construction in progress to reflect uncapitalized costs on the Memorial renovation project. The adjustment was to increase construction in progress by \$84,492 and net assets by the same amount. There was no adjustment to revenues or expenses.

REQUIRED SUPPLEMENTARY INFORMATION

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2005

	Original	Final	Actual
Revenues:			
From local sources:			
Taxes:			
Property	\$ 1,467,000	\$ 1,467,000	\$ 1,730,536
Motor vehicle	325,000	325,000	321,730
Utilities	480,000	480,000	592,974
Revenue in lieu of taxes	50,000	50,000	58,549
Other taxes	500	500	1,771
Earnings on investments	15,000	15,000	73,348
Other local revenues	11,800	11,800	4,204
Intergovernmental - State	9,312,379	9,567,647	11,867,006
Intergovernmental - Indirect Federal			38,343
Total Revenues	11,661,679	11,916,947	14,688,461
Expenditures:			
Instruction	5,922,869	6,206,105	7,576,476
Support services:			
Student	655,619	671,572	827,770
Instruction staff	425,227	452,134	532,997
District administrative	781,055	819,177	767,331
School administrative	818,676	845,252	1,077,888
Business	349,998	346,149	386,943
Plant operation and maintenance	1,612,649	1,853,723	1,419,936
Student transportation	1,139,025	1,457,570	1,524,564
Facilities acquisition and construction			8,096
Community service activities	10,606	10,106	3,136
Other non-instruction	840,955	802,636	15,550
Debt service:			
Principal			
Interest			
Total Expenditures	12,556,679	13,464,424	14,140,687
Excess (Deficit) of Revenues over Expenditures	(895,000)	(1,547,477)	547,774
Other Financing Sources (Uses):			
Proceeds from sale of fixed assets			1,628
Operating transfers out		(30,142)	(30,142)
Total Other Financing Sources (Uses)	-	(30,142)	(28,514)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(895,000)	(1,577,619)	519,260
Fund Balance, July 1, 2004	895,000	1,577,619	1,577,619
Fund Balance, June 30, 2005	\$ -	\$ -	\$ 2,096,879

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$2,289,724.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

SPECIAL REVENUE FUND

Year Ended June 30, 2005

	Original	Final	Actual
Revenues:			
Earnings on investments	\$ -	\$ -	\$ 500
Other local revenues		27,502	26,232
Intergovernmental - State	1,026,203	1,193,482	1,062,885
Intergovernmental - Indirect Federal	1,751,755	1,980,028	2,088,988
Total Revenues	2,777,958	3,201,012	3,178,605
Expenditures:			
Instruction	1,846,718	2,171,813	2,376,242
Support services:			
Student	126,116	121,417	79,995
Instruction staff	489,251	616,516	545,080
School administrative	14,257	14,351	13,341
Plant operation and maintenance	4,144	5,684	5,765
Student transportation	33,400	20,000	20,746
Central office			
Facilities acquisition and construction			
Community service activities	264,072	266,353	267,633
Debt service			
Principal			
Interest			
Total Expenditures	2,777,958	3,216,134	3,308,802
Excess (Deficit) of Revenues over Expenditures	-	(15,122)	(130,197)
Other Financing Sources (Uses):			
Operating transfers in		15,122	30,142
Total Other Financing Sources (Uses)	-	15,122	30,142
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	(100,055)
Fund Balance, July 1, 2004			149,594
Fund Balance, June 30, 2005	\$ -	\$ -	\$ 49,539

SUPPLEMENTARY INFORMATION

HART COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	SEEK Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets and Resources:				
Cash and cash equivalents	\$ -	\$ 132,867	\$ -	\$ 132,867
Total Assets and Resources	<u>\$ -</u>	<u>\$ 132,867</u>	<u>\$ -</u>	<u>\$ 132,867</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Reserved for:				
Construction		132,867		132,867
Total Fund Balances	<u>-</u>	<u>132,869</u>	<u>-</u>	<u>132,869</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 132,869</u>	<u>\$ -</u>	<u>\$ 132,869</u>

HART COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	SEEK Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ 4,675	\$ -	\$ 4,675
Intergovernmental - State	223,660		298,214	521,874
Total Revenues	223,660	4,675	298,214	526,549
Expenditures				
Facilities and construction		566,036		566,036
Debt service:				
Principal			500,000	500,000
Interest			557,134	557,134
Total Expenditures	-	566,036	1,057,134	1,623,170
Excess (Deficit) of Revenues over Expenditures	223,660	(561,361)	(758,920)	(1,096,621)
Other Financing Sources (Uses)				
Operating transfers in			758,920	758,920
Operating transfers out	(223,660)			(223,660)
Total Other Financing Sources (Uses)	(223,660)	-	758,920	535,260
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	(561,361)	-	(561,361)
Fund balance, July 1, 2004	-	694,228	-	694,228
Fund balance, June 30, 2005	\$ -	\$ 132,867	\$ -	\$ 132,867

HART COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

	Memorial Elementary	Munfordville Elementary	Bonnieville Elementary	Cub Run Elementary	LeGrande Elementary	Hart County High School	Total Agency Fund
Assets							
Cash and cash equivalents	\$ 18,138	\$ 28,048	\$ 17,866	\$ 6,267	\$ 9,907	\$ 62,091	\$ 142,317
Accounts receivable			1,597				1,597
Total Assets	<u>\$ 18,138</u>	<u>\$ 28,048</u>	<u>\$ 19,463</u>	<u>\$ 6,267</u>	<u>\$ 9,907</u>	<u>\$ 62,091</u>	<u>\$ 143,914</u>
Liabilities							
Accounts payable	2,069	\$ -	\$ 577	\$ 122	\$ -	\$ -	\$ 2,768
Due to student groups	16,069	28,048	18,886	6,145	9,907	62,091	141,146
Total Liabilities	<u>\$ 18,138</u>	<u>\$ 28,048</u>	<u>\$ 19,463</u>	<u>\$ 6,267</u>	<u>\$ 9,907</u>	<u>\$ 62,091</u>	<u>\$ 143,914</u>

HART COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
HART COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY:	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSEMENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE June 30, 2005	ACCOUNTS PAYABLE June 30, 2005	FUND BALANCES June 30, 2005
18th District	\$ -	\$ 9,665	\$ 9,665	\$ -	\$ -	\$ -	\$ -
Academic	495	700	519	676	-	-	676
Agriculture	18,656	12,272	14,607	16,321	-	-	16,321
Art	149	145	290	4	-	-	4
Arts and Humanities	-	-	-	-	-	-	-
Athletic	5,368	46,963	45,799	6,532	-	-	6,532
Attendance increase	2,824	4,465	6,663	626	-	-	626
Beta Club	994	4,718	5,054	658	-	-	658
Bookstore	2,854	120	2,227	747	-	-	747
Broadcasting	27	-	-	27	-	-	27
Chess Club	245	80	-	325	-	-	325
Class of 2000	-	-	-	-	-	-	-
Class of 2002	-	-	-	-	-	-	-
Class of 2003	-	-	-	-	-	-	-
Class of 2004	801	-	-	801	-	-	801
Class of 2005	2,341	445	2,786	-	-	-	-
Class of 2006	817	7,567	6,947	1,437	-	-	1,437
Class of 2007	882	263	-	1,145	-	-	1,145
Class of 2008	198	135	-	333	-	-	333
Co-Ed-Y	282	864	1,004	142	-	-	142
Coke machines	6,266	16,707	22,973	-	-	-	-
Concessions	-	1,941	1,000	941	-	-	941
Drama	621	217	837	1	-	-	1
Faculty Commission	631	1,975	2,604	2	-	-	2
FBLA	137	555	628	64	-	-	64
FCCLA	22	255	250	27	-	-	27
FFA	3,566	21,260	24,572	254	-	-	254
Fifth Regional Boys	-	-	-	-	-	-	-
Foreign Language	1,972	1,440	1,598	1,814	-	-	1,814
General Fund	16,294	28,163	35,344	9,113	-	-	9,113
Girls Regional	-	-	-	-	-	-	-
Grant	1,682	-	259	1,423	-	-	1,423
Home Economics	868	500	1,354	14	-	-	14
Ind. Arts	549	1,499	1,515	533	-	-	533
Jr. Beta	1,028	1,400	2,068	360	-	-	360
Library	864	74	-	938	-	-	938
Lockers	6,443	1,308	23	7,728	-	-	7,728
National Honor Society	1,397	1,105	2,073	429	-	-	429
Pep Club	390	693	367	716	-	-	716
Petty Cash	50	-	-	50	-	-	50
SADD HOPE	39	5,245	5,048	236	-	-	236
Science	23	130	145	8	-	-	8
Snack Machines	1,704	1,066	2,770	-	-	-	-
Stand Club	-	210	180	30	-	-	30
Student Council	1,196	97	362	931	-	-	931
TSA Club	8	715	461	262	-	-	262
Yearbook	6,193	13,550	13,300	6,443	-	-	6,443
TOTALS	88,876	188,507	215,292	62,091	-	-	62,091
Transfers	-	31,619	31,619	-	-	-	-
TOTALS	\$ 88,876	\$ 156,888	\$ 183,673	\$ 62,091	\$ -	\$ -	\$ 62,091

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
National School Lunch	10.555	575-04-02	\$ 105,650
		575-05-02	404,436
School Breakfast	10.553	576-04-05	47,809
		576-05-05	194,344
Summer Feeding Program	10.559	569-04-24	4,368
		569-05-24	1,288
Passed Through State Dept. of Agriculture			
Food Distribution (In-Kind Commodities)	10.555	N/A	55,724
TOTAL U.S. DEPT. OF AGRICULTURE			<u>813,619</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I	84.010	* 3104	178,230
		3105	867,234
Title I - Migrant	84.011	3114	7,631
		3115	43,375
Title IIC	84.048	3484	7,746
		3484A	1,881
		3485	28,531
IDEA - Part B	84.027	3374	76,073
		3375	424,085
IDEA - Part B - Preschool	84.173	3434	20,128
		3435	26,556
Title IV	84.186	4065	30,329
Innovative Program Strategies	84.298	3345	14,064
Rural and Low Income Schools	84.358B	3504	22,589
		3505	5,175
Teacher Quality	84.367A	4014	24,455
		4015	166,674
Title II D	84.318X	4254	20,996
		4255	23,415
Evenstart	84.213	3234	287
		3235	89,336
Passed Through Cabinet for Workforce Development			
Adult Basic Ed.	84.002	3735S	1,733
		3805	6,352
		3655	9,203
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,096,078</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,909,697</u>

* Denotes major federal program

The accompanying notes are an integral part of this schedule.

HART COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hart County School District and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I-Summary of Auditor's Results

Section I-Summary of Auditor's Results

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2005

NONE

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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Members of the Board of Education
Hart County School District
Munfordville, Kentucky

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hart County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Hart County Board of Education's basic financial statements and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hart County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain additional matters that we have reported to the management of Hart County Board of Education in a separate letter dated September 29, 2005.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Hart County School District, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
September 29, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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Hart County School District
Munfordville, Kentucky

Compliance

We have audited the compliance of Hart County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Hart County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hart County School District's management. Our responsibility is to express an opinion on Hart County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hart County School District's compliance with those requirements.

In our opinion, Hart County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Hart County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hart County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Hart County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stiles, Carter & Associates".

Certified Public Accountants
September 29, 2005

MANAGEMENT LETTER COMMENTS

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Munfordville, Kentucky

In planning and performing our audit of the basic financial statements of Hart County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated September 29, 2005 contains our report on the District's internal control structure. This letter does not affect our report dated September 29, 2005 on the financial statements of the Hart County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Stiles, Carter & Associates

Certified Public Accountants
September 29, 2005

HART COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS - NONE

CURRENT YEAR COMMENTS

Deposit of Funds – School Activity Funds

During our audit, we noted that deposits were not made on a timely basis at Hart County High School and Memorial Elementary School as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will ensure that deposits are made on a timely basis.

Disbursement of Funds – School Activity Funds

During our audit, we noted that a check was issued to the senior class president at Hart County High School in the amount of \$1,700.19 from the Class of 2005 fund to be used for future class reunions. We recommend that funds not be issued to students and that the school maintain these funds.

Management Response

Management will inform school personnel that students should not receive disbursements from school accounts.

Supporting Documentation for Receipts – School Activity Funds

During our audit, we noted that supporting documentation was not present for all receipts at Bonnieville Elementary School, Legrande Elementary School, Memorial Elementary School and Munfordville Elementary School as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will inform school personnel that supporting documentation should be provided with all receipts.

Ticket Requisition Forms – School Activity Funds

During our audit, we noted that, at Bonnieville Elementary School, the ending ticket is not regularly stapled to the ticket requisition form as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. Also, we noted that, at Cub Run Elementary School, beginning change is not verified by the gate work and ticket numbers are not changed for consecutive events as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will notify school personnel of the ticket requisition form requirements and ensure the regulations are followed.

HART COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS

Attendance Incentives – School Activity Funds

During our audit, we noted that Cub Run Elementary School purchased tee shirts for students with perfect attendance which is prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will notify the school that attendance incentives should not be provided.

Segregation of Duties – School Activity Funds

During our audit, we noted that Bonnieville Elementary School did not have proper segregation of duties regarding handling receipts. We also noted that Cub Run Elementary School did not have proper segregation of duties regarding handling receipts and paying bills. Duties are required to be segregated by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will communicate the requirements to ensure proper segregation of duties.

Security of Checks – School Activity Funds

During our audit, we noted that Munfordville Elementary School did not keep blank checks in a secure location.

Management Response

Management will inform the school that blank checks are to be kept in a locked storage facility.

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State Committee for School District Audits
Members of the Board of Education
Hart County Board of Education
Munfordville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hart County School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated September 29, 2005. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated June 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies

used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate is that for sick leave.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, do not indicate matters that could have a significant effect on the District's financial reporting process. In addition, management has made all adjustments proposed by us.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the

District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Shiles, Carter & Associates".

Certified Public Accountants
September 29, 2005